

# ***U.S. Embassy - Skopje***

## **ECON NEWSLETTER 5/2003**

### **ANNUAL MEETING OF DUTCH CONSTITUENCY HELD IN SKOPJE**

Macedonian Prime Minister Branko Crvenkovski said on May 17, at the Annual meeting of the Dutch Constituency in Skopje that Macedonia faces serious difficulties in the balance of payment and therefore the cooperation with the International Monetary Fund (IMF), the World Bank (WB) and the European Bank for Reconstruction and Development (EBRD) is an imperative. Crvenkovski pointed out that arrangements with the IMF and the WB require continuation of structural reforms, which usually have high social cost.

Strengthening the competitiveness of the economy and consolidating the public finances are the main objectives of the new strategy for realization of a more dynamic and sustainable economic development, Macedonian Finance Minister Petar Gosev stated, presenting the GOM's economic program to the participants at the annual Assembly of the Dutch Constituency of the IMF and the WB.

"The economic program that Gosev presented is very ambitious, having in mind that Macedonia envisages a fiscal consolidation of 4 percent in one year. Still, I think that this is achievable", Dutch Finance Minister Hans Hoogervorst stated at the press conference after the forum. According to him, the transition countries, including Macedonia, have a big problem, because their financial sector should begin from the bottom, but they can make progress very fast, if they have "determined privatization program".

Emphasizing that the objective of the Assembly was exchange of experiences between the developed countries and the developing ones, members of the Dutch Constituency, IMF Executive Director Jeroen Kremers said that there is no risk for realization of the IMF program for Macedonia, if it is suitably implemented". Dutch Minister of Development Agnes van Ardenne stated that Macedonia's role is essential, especially for the stability in the region, recommending the Macedonian authorities to invest in the attraction of foreign investments.

Besides the Netherlands, the Dutch Constituency includes Macedonia, Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Moldova, Ukraine and Romania.

#### **STATEMENT BY NEW WB DIRECTOR ORSALIA KALANTZOPOULOS**

The new director of the World Bank for Macedonia and Regional Coordinator for Southeastern Europe Orsalia Kalantzopoulos assessed that the economic situation in Macedonia is improving quite rapidly. She took part at the Annual meeting of the Dutch Constituency of the IMF and the World Bank organized in Skopje on May 17-18, 2003.

Reminding that the IMF Board has recently approved the program for Macedonia, Kalantzopoulos informed that they were currently discussing the loans for Macedonia, which could not been released for a longer period of time due to the macroeconomic situation and the slow progress in structural reforms. "We should make efforts for Macedonia to be integrated with the rest of Europe," she said, pointing out that this would bring prosperity to the country, and reduce the poverty and unemployment.

Considering the fact that the Macedonian economy should integrate in the European market, the priority of Kalantzopoulos's work would be to prepare the country for more aggressive private sector growth, improving the infrastructure, facilitating the trade and keeping up with the good standards in the education and health sector.

#### **EFFORTS ON AMENDING OKTA INVESTMENT AGREEMENT CONTINUE**

At the second meeting of the Joint Committee for amending OKTA's sale agreement, the Macedonian side suggested the amendments to be made in accordance with the Macedonian and European legislation. The changes should be in compliance with the agreements signed between Macedonia and EU, World Trade Organization and the Energy Charter. However, the Greek part still does not accept the proposed changes.

The Committee is comprised of authorized representatives of the Macedonian Government, headed by the Minister of Economy Ilija Filipovski and representatives of ELPET Balkanike from Greece headed by President of Steering Board of Hellenic Petroleum Atanasios Karahalios, as well as representatives of the both parties signatories of OKTA Investment Agreement.

## **SEMINAR ON "DEFINITION AND PUBLIC AWARENESS OF MOST PRIVILEGED NATION PRINCIPLE"**

With the membership in the World Trade Organization, Macedonia acquired the status of most privileged nation, so the Macedonian export companies will have easier access at the markets in WTO member countries, Macedonian Minister of Economy Ilija Filipovski said in his opening speech at the seminar "Definition and Public Awareness of Most Privileged Nation Principle." The seminar is organized by the Ministry of Economy and the German Society of Technical Assistance GTZ and refers to the WTO regulations.

Filipovski spoke of Macedonia's adjustment to WTO regulations and principles such as: principles of non-discrimination, referring to equalizing the excises of domestic and foreign products and lifting the trade barriers; principle of transparency, according to which the existing laws are fully coordinated with WTO regulations and principle of liberalization aimed at making amendments to customs protection. According to Filipovski, after the transition period the average rate of customs protection will be reduced from 14.26 to 8 percent.

Dieter Stark, GTZ expert said that WTO membership would facilitate Macedonia's integration in the European Union. He pointed out that WTO membership was a challenge that brought obligations, but also rights, and the main benefit was the principle of most privileged nation. "This means that each WTO member country is among the most privileged, because the mere fact that they are members of this organization brings advantages," Stark said. According to him, Macedonia is in a period of adaptation and after this period is over the domestic industry should be ready for competition and new economic challenges.

## **MACEDONIAN MOBILE-PHONE OPERATOR MTS LAUNCHES OPERATIONS**

Macedonia's second mobile operator, MTS, owned by the Greek OTE, launched its operations on May 17. The Minister of Transport and Communications Milaim Ajdini made the first call of Macedonia's new mobile network, but the system will be fully operational within one month, said director of MTS Nicolaos Avgerinus. He announced that services and prices of MTS would be more competitive than the ones of the current operator in the Macedonian mobile telephony market.

Concession agreement for the second mobile operator was signed on November 8, 2001. The Greek company paid 25 million Euro for the concession.

#### **GOVERNMENT CUTS OIL PRICES**

Responding to the developments at the world oil markets, the GOM decided to cut the wholesale oil prices by 22.14 percent and the retail ones by 12.65 percent. Accordingly, the price of 86-octane gasoline will be Denar 48; 98-octane - Denar 49.50; unleaded - Denar 46.50; diesel-fuel D1- Denar 35.50; D2 - Denar 34.50 and crude oil - Denar 12.54.

#### **MARCH ECONOMIC INDICATORS**

On May 19, the GOM discussed the economic activities in March 2003. GOM's spokesman Saso Colakovski presented some econ indicators to the media. According to him, there is a growth of the industrial production by 3.4 percent in the first quarter of this year compared with the same period of last year, which is slightly lower than projections made with the IMF. However, there was no inflation, while the export was higher by 45.7 percent, but followed by higher monthly import by 26.7 percent. The budget expenditures were cut by 18.2 percent, bringing a surplus of Denar 331 million. The country's foreign debt was also reduced by 1 percent in comparison to February.

#### **SKOPJE BREWERY OPENS TWO PRODUCTION FACILITIES**

The latest production technology will be applied in the facilities for production of beer and beverages, which were opened on May 19 in Skopje Brewery "Pivara." Macedonian Prime Minister Branko Crvenkovski said in his opening speech that this was great success for "Pivara" management, but also very important moment for the Macedonian economy. He recommended the investors to have confidence in the successful businessmen, adding that now was the right time for making investments in the country.

"Pivara - Skopje" General Manager Svetozar Janevski said that his company proved that the success was possible even under most difficult circumstances. The investment, amounting to Euro 55 million, will enable annual production of 100 million liters of beer and beverages. The production will start with the domestic brands of beer "skopsko," "star lisec" and "gorsko," but the international brands - "heineken" and "amstel" will be

also produced afterwards. The beverage facility will produce the well-known brands of "Coca Cola" company. The production is intended for the domestic market, but also for export in the neighboring countries.

#### **JOINT IMF AND WORLD BANK MISSION VISITED MACEDONIA**

A joint International Monetary Fund (IMF) and World Bank (WB) mission from the Financial Sector Assessment Program (FSAP) visited Macedonia from May 6 - 16, the Ministry of Finance announced. FSAP aims to increase the soundness of the financial system, to identify its strengths and vulnerabilities, to determine how key sources of risk are being managed, to ascertain the sector's developmental and technical assistance needs and to help prioritize policy responses.

The program is comprised of two missions. The first one, which was completed analyzed the financial sector and assessed whether the country can apply Basel Supervising Standards, IMF Code for transparency of monetary and fiscal policy, standards for significant payment systems as well as Methodology on fight against money laundering and financing of terrorism. The second mission scheduled for June 18 - 27, will focus on finalizing the assessment and perform stress tests.

The Finance Ministry says that FSAP recommendations are crucial for enhancing the financial system. "In some areas the state will be able to undertake certain measures, but in other areas Macedonia will have to request assistance from IMF and the World Bank for implementing the given recommendations," reads the announcement.

#### **"HEPOS" COMPANY SIGNS AGREEMENT, WORTH US \$ FIVE MILLION**

The company "Hepos" from Skopje signed an agreement with the Chinese company "Meishin Rolling Stocks" on delivery of brake systems for 1,300 freight cars, worth US\$ 5 million, Hepos general director Vladimir Angelovski announced. The factory will work on the project for the next two years with agreed delivery dynamics.

#### **MACEDONIAN AND ALBANIAN MINISTERS OF TRANSPORT MET IN TIRANA**

On May 22, the Macedonian Minister of Transport and Communication Miljaim Ajdini met in Tirana with his Albanian counterpart Spartak Poci regarding the preparatory activities for Corridor 8. Ajdini emphasized

that the building of Corridor 8 would strengthen the cooperation between both countries, thus contributing to the faster economic, cultural and tourist development in the region. He said that the Macedonian Ministry of Transport and Communication already prepared the main projects for the unfinished part of Corridor 8.

Poci informed his Macedonian colleague that the construction works has been intensified on the Albanian side, especially with the building of North-South axis, which will connect Albania with the Dalmatian Corridor. The meeting also tackled the issue of establishment of a regular flight Tirana-Skopje-Tirana. Both ministers agreed that certain activities have to be overtaken in order to establish the international lake route Ohrid-Pogradec, reminding that the agreement was signed in

#### **GREECE RATIFIES MACEDONIA-EU STABILIZATION AND ASSOCIATION AGREEMENT**

Greek Parliament ratified the Stabilization and Association Agreement (SAA) between Macedonia and the European Union on June 27. All but the Communist party MP's voted for the ratification. "The Act ratifying the Stabilization and Association Agreement will strengthen our neighboring state's stability, unity, territorial integrity, peace, prosperity and progress," Deputy Foreign Minister Andreas Loverdos said, addressing the parliament before voting.

#### **GOVERNMENT PROVIDES EURO 202 MILLION FOR PUBLIC SECTOR PROJECTS**

The GOM provided Euro 202.15 million for supporting the projects in the public sector. The funds are from the Budget (Euro 49.52 million), Fund for Highways and Regional Roads (27.14 million), foreign donations (37.75 million), European Bank for Reconstruction and Development (17.25 million), World Bank (7.03 million), European Investment Bank (14 million) and the proceeds of the sale of Macedonian Telecom (17.3 million).

The energy sector will obtain Euro 32.76 million for the following projects: construction of hydropower plant "Kozjak," reconstruction and revitalization of existing hydropower plants, construction of "Lera" hydropower plant, construction of mini hydropower plants, electrification of villages and offering consultant services for transformation of Macedonian Power Company.

Total of Euro 71.45 will be provided for the transport projects including the reconstruction of Kumanovo - Veles highway, construction of new lines on Smokvica - Gevgelija and Negotino - Demir Kapija highway, construction of ring roads around Skopje and Tetovo and construction of Stobi - Negotino section. Furthermore, money has been provided for reconstruction and maintenance of highways and regional roads, construction of railway line Kumanovo - Beljakovci - Bulgarian border, repair of railway network as well as the project for improving the civil aviation and rehabilitation of Ohrid airport.

The projects in the sphere of irrigation, water supply and filtering of wastewater will obtain Euro 46.33 million, while Euro 5.22 million are provided for protection of environment, including the projects for salvation of Dojran Lake, monitoring system of Macedonian rivers as well as construction of filtering station in Gevgelija. Also Euro 37.1 million will be provided for developmental projects in the non-economic sector.

#### **SEMINAR ON TOPIC "EUROPEAN PROGRAM CARDS"**

In organization of the National Agency for Development of Small and Middle Enterprises, and in the framework of the Program for connection of small and middle enterprises in Southeast Europe, which is supported by the Stability Pact, seminar on topic "European Program CARDS" was held on May 27. The program encompasses assistance for countries in the stabilization and association process, and is worth Euro 4.6 billion for the period 2000-2006. The assistance in Macedonia is distributed through the European Agency for Reconstruction, and the approval of projects is carried out according to the decentralized principle, which means that the country prepares the documentation, followed by approval from the European Agency for Reconstruction.

The Program for connection of small and middle enterprises in Southeast Europe is also to include holding of seminars on topic "Innovative Enterprise" and "International Marketing and e-Commerce".

#### **POLL: MACEDONIANS MORE CONCERNED WITH UNEMPLOYMENT THAN ETHNIC PROBLEMS**

The results of the Brima Agency research, conducted on UNDP initiative show that Macedonians are more concerned with the unemployment than with the ethnic problems. According to the results, 78.8 percent of the citizens

are frightened from unemployment, 66 percent from the poverty, 54.8 percent from the corruption, 43.1 percent from the crime, 32.4 percent from higher prices, and only 29.5 percent from ethnic problems.

Utrinski vesnik reads that two main ethnic groups in Macedonia are for coexistence and demand peaceful and non-violent improvement of inter-ethnic relations. The probability is very low that the public would support the radical solutions or activities, which would lead to escalations of violence. The poll reads that 61.8 percent of the Macedonians are for mutual life with the Albanians while 12 percent are for a state without Albanians.

#### **BUILDING OF HYDROELECTRIC PLANT "KOZJAK" IN FINAL PHASE**

The filling up of the lake at the hydroelectric plant "Kozjak" on May 30 marked the beginning of the final phase of this project worth US\$ 180 million. The Macedonian Prime Minister Branko Crvenkovski said at the ceremony that "the important thing is that the project has been realized in the most difficult period of our existence".

The filling up of the lake, which is expected to finish in 7-9 months, creates conditions for the beginning of work of the first aggregate for electricity production by March 2004, followed by the second in September. Crvenkovski announced the Government will work on opening possibilities for foreign investments through concessions.

The building of "Kozjak" began in 1994, and was financed by the Macedonian Power Company. The company general director Pande Lazarov informed that "Kozjak" will produce 160 million kilowatts of electricity, which will be used for overcoming the lacks of electricity that emerge in the electric-energetic system.

Besides this plant, the building of plant "Matka 2" will start in September, which along with "Matka 1" and "Kozjak" should produce nearly 250 million kilowatts of electricity. Lazarov announced that the Macedonian Power Company also plans to build three electric plants at river Crna Reka and 18 plants at river Vardar. "Thus, the usage of the water potential in the country, which amounts to 21 percent at the moment, will come close to the European standard of 50 percent", he said.



## **CANADA POST ON AGREEMENT FOR MANAGING MACEDONIAN POST**

All misunderstandings regarding the Agreement on joint management and provision of Postal Services signed between the Macedonian Government and Canada Post have been cleared, the "Canada Post" said in a press release, presenting the results of negotiations with the Macedonian governmental commission. Canadian Post said that the Agreement was financially favorable for the GOM, adding that all employees of the Macedonian Post will be transferred in the new company. Furthermore, the new company will support the employment policy foreseen in the Framework Agreement.

The Agreement does not include provisions that could harm the state or that are contradictory to the Macedonian or international legislation. The GOM will have most of the profits with this merging, Canadian Post said. "We have included tables, graphs and presentations in order to ensure transparency. The working group reformulated all disputed clauses and we think that this agreement is positive step for the future of the GOM and the Macedonian nation," Gilles Hubert, President of the Canada Post International, said in the media statement.

Earlier this week Minister of Transport and Communications Miljaim Ajdini said that he did not want to annul the Agreement, but wanted some harmful provisions to be revised. The Agreement of joint management and provision of postal services between Canada Post and Macedonian Post was signed in July 2002, but its implementation was halted due to certain objections by the Macedonian side.